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Glenn Brown
Executive Director-
Public Policy

EX PARTE

July 2, 1998

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JUL - 2 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, D.C. 20554

RE: CC Docket 96-45

Dear Ms. Salas:

On July 1, 1998, the undersigned met with Honorable David Baker, of the Georgia Public Service Commission and member of the Federal-State Joint Board on Universal Service. The purpose of the meeting was to discuss plans for explicit universal service support for non-rural LECs. The attached material was used during our discussions.

Since this meeting occurred in Atlanta, Georgia, this letter is being filed the following business day. In accordance with Commission Rule 1.1206(a)(2), the original and a copy of this summary of the presentation is being filed with your office. Acknowledgment and date of receipt are requested. A copy of this submission is provided for this purpose. Please contact me if you have questions.

Sincerely,



Attachment

cc: Honorable David Baker

No. of Copies rec'd 0 + 1
List A B C D E

Three Purposes of Universal Service Fund

1. Rural High-Cost
2. Replace Implicit Support
3. Fund Schools, Libraries and Rural Health Care

Rural High Cost

- All States Have High-Cost Rural Customers
- Some States Have More Low-Cost Urban Customers
- Must Find Equitable Way to Identify and Support States With Extraordinary Needs
 - Two Benchmark
 - Multiple Benchmark
 - Variable Benchmark
 - Variable Percentage

Rural High Cost (continued)

- We Have Created Two “Classes” of Rural High-Cost Customer:
 - Rural Customers Served by “Rural” Companies
 - Full Federal Funding for Costs Over 115%
 - Rural Customers Served by “Non-Rural” Companies
 - Further Delay in Explicit Funding
 - Continued Reliance on Vulnerable Explicit Support

Implicit Support

- Interstate Sources
 - Access Charges
 - Subscriber Line Charges
 - Additional Residential Lines (\$5.00)
 - Multiline Business (\$9.00)
- Intrastate Sources
 - Business Services (3x - 4x)
 - Access Charges
 - InterLATA Toll
 - Vertical Services
- Customers Must Fully Understand Changes On Their Bills

HOW MANY CUSTOMERS SUPPORT EACH HIGH-COST CUSTOMER?
(NON-RURAL LEC STUDY AREAS ONLY)

stateid	Total Lines	Lines > \$50	Total \$50
MS	1,185,210	225,278	5
WV	776,326	118,096	7
KY	1,672,422	177,495	9
AR	848,296	83,953	10
MT	311,085	29,770	10
VT	331,470	30,995	11
AL	2,101,681	194,971	11
ID	578,972	49,844	12
WY	221,982	19,065	12
MO	2,881,496	226,167	13
SD	255,527	19,386	13
OK	1,585,379	119,529	13
ME	651,597	45,224	14
NE	792,539	54,093	15
ND	235,548	15,946	15
IN	3,168,932	182,867	17
MN	2,352,496	132,109	18
VA	4,029,810	212,821	19
LA	2,161,959	111,913	19
TN	2,713,895	136,913	20
IA	995,730	49,735	20
NM	725,499	36,216	20
WI	2,650,099	131,117	20
SC	1,502,650	72,645	21
NC	3,950,135	187,374	21
KS	1,222,537	50,295	24
TX	10,449,569	427,783	24
GA	3,881,849	152,093	26
OH	6,267,407	219,836	29
NH	724,804	24,529	30
MI	5,755,154	175,990	33
CO	2,270,706	67,091	34
AZ	2,225,122	62,184	36
OR	1,376,480	38,416	36
IL	7,378,715	189,906	39
WA	3,044,486	77,439	39
PA	7,258,883	148,121	49
UT	935,397	17,461	54
NV	937,114	11,788	79
HI	704,179	8,666	81
DE	509,854	5,969	85
FL	9,479,041	94,587	100
NY	11,702,236	105,519	111
CA	20,521,641	176,261	116
MD	3,367,642	26,732	126
AK	149,078	611	244
MA	4,272,096	14,892	287
CT	1,991,162	5,872	339
RI	643,137	1,005	640
NJ	5,887,531	2,785	2,114
PR	1,520,909	494	3,079
DC	520,361	-	-
TOTAL	153,677,826	4,769,847	32

Nat'l Avg = 32

stateid	Total Lines	Lines > \$100	Total \$100
SD	255,527	12,796	20
MT	311,085	13,136	24
ND	235,548	9,079	26
WY	221,982	7,902	28
NE	792,539	25,861	31
MS	1,185,210	34,457	34
ID	578,972	16,549	35
AR	848,296	18,652	45
MO	2,881,496	57,617	50
OK	1,585,379	31,375	51
NM	725,499	13,737	53
MN	2,352,496	43,453	54
KS	1,222,537	22,371	55
WV	776,326	13,790	56
IA	995,730	16,129	62
AZ	2,225,122	32,992	67
TX	10,449,569	116,281	90
AL	2,101,681	22,103	95
WA	3,044,486	29,465	103
LA	2,161,959	17,123	126
CO	2,270,706	17,160	132
OR	1,376,480	8,962	154
ME	651,597	4,094	159
WI	2,650,099	16,074	165
NV	937,114	5,458	172
KY	1,672,422	9,235	181
IL	7,378,715	39,768	186
UT	935,397	4,311	217
VT	331,470	1,501	221
GA	3,881,849	14,888	261
SC	1,502,650	5,374	280
NH	724,804	2,320	312
MI	5,755,154	17,117	336
IN	3,168,932	8,366	379
VA	4,029,810	9,352	431
TN	2,713,895	6,215	437
CA	20,521,641	45,775	448
NC	3,950,135	6,827	579
AK	149,078	224	666
FL	9,479,041	12,555	755
OH	6,267,407	7,952	788
PA	7,258,883	7,755	936
HI	704,179	540	1,304
NY	11,702,236	7,205	1,624
MD	3,367,642	910	3,701
DE	509,854	95	5,367
MA	4,272,096	591	7,229
RI	643,137	77	8,352
NJ	5,887,531	191	30,825
CT	1,991,162	64	31,112
PR	1,520,909	12	126,742
DC	520,361	-	-
TOTAL	153,677,826	815,836	188

Nat'l Avg = 188

State	County	Area	MonthCost	Lines	Supp20	Supp30	Supp315	Supp90	Supp60	Supp70	Supp80	90/90	100/100	Lines > \$50	Lines > \$20	Lines > \$70	Lines > \$100
AK	1	\$	22.72	149,078	\$4,195,755	\$568,939	\$543,644	\$278,435	\$200,514	\$160,489	\$131,417	\$128,506	\$91,760	611	523	224	224
AL	3	\$	32.86	2,101,681	\$320,417,418	\$161,063,542	\$142,548,417	\$82,293,039	\$40,701,192	\$27,196,411	\$18,821,049	\$13,324,038	\$9,774,696	194,971	116,893	75,283	22,103
AR	1	\$	34.49	848,296	\$145,030,405	\$77,063,810	\$68,807,561	\$37,949,939	\$27,762,027	\$20,166,074	\$14,598,969	\$10,651,326	\$7,786,229	83,953	64,819	48,456	18,652
AZ	1	\$	27.56	2,225,122	\$199,140,588	\$87,997,629	\$78,102,357	\$54,154,181	\$44,753,740	\$37,030,516	\$30,114,839	\$23,615,245	\$17,646,627	62,184	48,853	41,537	32,992
CA	4	\$	22.53	20,521,641	\$760,255,786	\$264,466,926	\$225,218,793	\$142,403,387	\$114,854,146	\$96,132,257	\$81,747,606	\$70,761,754	\$61,695,784	176,261	118,695	88,235	45,775
CO	1	\$	27.86	2,270,706	\$212,569,572	\$96,585,598	\$84,130,088	\$55,639,201	\$45,909,289	\$39,340,784	\$34,049,540	\$29,723,096	\$26,299,675	67,091	45,447	33,432	17,160
CT	1	\$	24.39	1,991,162	\$107,893,770	\$16,334,821	\$11,349,764	\$869,253	\$288,305	\$117,594	\$70,272	\$45,986	\$32,008	5,872	2,042	343	64
DC	1	\$	18.40	520,361	\$1,065,496	\$25	\$0	\$0	\$0	\$0	\$0	\$0	\$0				
DE	1	\$	24.63	509,854	\$29,424,677	\$7,781,290	\$6,278,463	\$655,281	\$237,494	\$135,219	\$97,255	\$76,753	\$61,534	5,969	1,598	344	95
FL	4	\$	24.48	9,479,041	\$519,589,546	\$113,160,937	\$93,972,066	\$38,647,273	\$26,638,016	\$19,889,454	\$15,381,860	\$12,331,791	\$9,960,185	94,587	51,559	30,179	12,555
GA	2	\$	27.72	3,881,849	\$357,263,740	\$131,093,770	\$112,327,784	\$44,814,545	\$27,776,347	\$17,767,857	\$11,255,635	\$7,181,956	\$4,553,494	152,093	87,145	55,207	14,888
HI	1	\$	24.37	704,179	\$39,550,144	\$10,319,582	\$8,415,398	\$3,445,710	\$2,251,736	\$1,556,297	\$1,150,209	\$886,505	\$732,073	8,666	5,026	3,210	540
IA	1	\$	29.31	995,730	\$110,155,148	\$51,497,411	\$46,006,375	\$29,084,096	\$22,748,348	\$17,556,751	\$13,194,134	\$9,754,776	\$7,112,188	49,735	38,994	32,197	16,129
ID	2	\$	35.50	578,972	\$105,251,320	\$68,344,168	\$61,529,037	\$43,867,057	\$36,660,788	\$30,808,239	\$26,217,505	\$22,547,812	\$19,596,559	49,844	38,992	30,773	16,549
IL	4	\$	24.64	7,378,715	\$435,415,648	\$182,329,134	\$161,617,522	\$89,824,876	\$65,928,927	\$48,973,816	\$36,569,949	\$27,318,064	\$20,599,811	189,906	134,782	100,034	39,768
IN	4	\$	28.62	3,168,932	\$324,176,665	\$139,028,749	\$119,631,079	\$44,169,403	\$24,395,197	\$13,608,093	\$7,876,239	\$5,068,976	\$3,564,795	182,867	104,491	57,421	8,366
KS	1	\$	31.33	1,222,537	\$164,112,790	\$92,745,535	\$86,239,785	\$67,614,923	\$60,882,594	\$55,572,072	\$51,252,683	\$47,544,250	\$44,234,768	50,295	39,716	33,209	22,371
KY	3	\$	31.26	1,672,422	\$229,513,953	\$122,419,149	\$108,185,902	\$43,771,102	\$24,868,685	\$13,947,606	\$7,801,788	\$4,447,211	\$2,735,679	177,495	112,024	61,115	9,235
LA	1	\$	29.15	2,161,959	\$235,400,626	\$105,614,033	\$93,495,899	\$45,424,463	\$31,867,830	\$23,230,007	\$17,281,257	\$13,007,284	\$10,007,113	111,913	72,716	48,488	17,123
MA	1	\$	22.09	4,272,096	\$139,104,173	\$18,761,651	\$14,307,268	\$3,734,884	\$1,964,927	\$999,889	\$594,293	\$399,659	\$270,285	14,892	7,641	3,687	591
MD	1	\$	23.30	3,367,642	\$146,603,241	\$33,892,935	\$26,181,150	\$5,603,697	\$2,824,360	\$1,709,604	\$1,112,308	\$693,631	\$505,168	26,732	11,405	4,593	910
ME	1	\$	32.06	651,597	\$93,370,818	\$49,593,203	\$43,851,102	\$20,794,275	\$15,301,927	\$12,065,389	\$10,315,309	\$9,232,062	\$8,399,962	45,224	25,167	14,183	4,094
MI	2	\$	26.52	5,755,154	\$451,448,763	\$174,174,439	\$146,091,678	\$58,186,461	\$37,360,728	\$25,801,532	\$18,698,322	\$14,173,681	\$11,045,292	175,990	95,540	55,954	17,117
MN	4	\$	29.35	2,352,496	\$267,306,315	\$150,149,038	\$138,695,220	\$92,715,470	\$75,428,007	\$62,071,242	\$50,951,662	\$42,077,859	\$35,094,004	132,109	103,372	83,460	43,453
MO	4	\$	31.05	2,881,496	\$379,780,176	\$213,332,359	\$196,214,903	\$119,277,746	\$91,161,297	\$70,077,013	\$54,355,857	\$40,627,224	\$31,826,779	226,167	170,982	127,971	57,617
MS	1	\$	39.18	1,185,210	\$268,110,533	\$165,310,242	\$148,958,755	\$80,229,717	\$55,461,326	\$38,729,964	\$27,525,978	\$20,026,494	\$14,668,365	225,278	153,599	105,345	34,457
MT	1	\$	42.42	311,085	\$81,836,111	\$56,601,568	\$52,912,226	\$42,672,122	\$38,492,411	\$35,120,555	\$32,271,850	\$29,836,305	\$27,633,677	29,770	23,666	20,881	13,136
NC	7	\$	29.57	3,950,135	\$448,480,922	\$171,055,366	\$144,921,882	\$37,623,112	\$18,951,379	\$10,917,161	\$6,932,589	\$4,614,398	\$3,234,783	187,374	82,374	37,357	6,827
ND	1	\$	35.86	235,548	\$44,487,341	\$32,249,857	\$30,644,674	\$25,379,288	\$23,080,861	\$21,097,066	\$19,233,073	\$17,604,873	\$16,093,741	15,946	12,797	12,198	9,079
NE	2	\$	33.75	792,539	\$130,211,209	\$87,003,619	\$81,600,078	\$64,784,671	\$57,577,254	\$51,489,253	\$46,371,021	\$42,058,476	\$38,300,846	54,093	44,379	39,060	25,861
NH	1	\$	28.06	724,804	\$70,379,577	\$28,837,295	\$24,074,748	\$9,350,112	\$5,966,204	\$4,041,929	\$2,993,436	\$2,366,451	\$1,921,339	24,529	14,395	7,175	2,320
NJ	2	\$	20.35	5,887,531	\$133,885,742	\$11,002,252	\$7,580,825	\$919,579	\$670,600	\$509,413	\$427,253	\$382,529	\$350,611	2,785	1,099	701	191
NM	1	\$	31.89	725,499	\$102,293,122	\$56,194,414	\$51,331,609	\$35,569,284	\$31,068,242	\$27,613,612	\$24,774,739	\$22,271,657	\$20,123,089	36,216	28,647	22,004	13,737
NV	2	\$	24.34	937,114	\$51,921,441	\$27,194,636	\$25,009,332	\$19,732,913	\$17,890,674	\$16,457,210	\$15,214,836	\$14,135,707	\$13,170,566	11,788	8,883	7,227	5,458
NY	2	\$	21.80	11,702,236	\$376,638,857	\$113,494,150	\$94,595,152	\$31,039,742	\$18,786,593	\$11,966,548	\$7,970,440	\$5,647,250	\$4,258,429	105,519	55,732	32,281	7,205
OH	6	\$	26.55	6,267,407	\$492,376,364	\$180,470,423	\$152,055,109	\$47,289,469	\$24,192,345	\$12,527,015	\$6,789,986	\$3,771,364	\$2,191,542	219,836	115,907	55,630	7,952
OK	2	\$	31.64	1,585,379	\$224,158,794	\$119,295,317	\$109,045,078	\$66,543,500	\$52,540,882	\$41,642,132	\$33,122,184	\$26,829,696	\$22,011,747	119,525	82,128	71,039	31,375
OR	2	\$	26.61	1,376,480	\$110,187,751	\$50,155,210	\$44,540,002	\$27,388,265	\$22,539,960	\$19,108,031	\$16,572,751	\$14,710,165	\$13,235,153	38,416	26,353	20,007	8,962
PA	5	\$	24.92	7,258,883	\$448,989,327	\$152,754,378	\$126,725,364	\$38,511,876	\$22,694,601	\$14,801,272	\$10,424,089	\$7,372,002	\$6,004,243	148,121	72,442	37,327	7,755
PR	2	\$	23.79	1,520,909	\$75,267,696	\$5,787,400	\$4,276,829	\$141,749	\$85,871	\$55,173	\$33,549	\$11,998	\$135	494	462	190	12
RI	1	\$	24.12	643,137	\$32,205,739	\$3,628,743	\$2,480,565	\$115,785	\$74,048	\$46,158	\$26,907	\$16,083	\$5,259	1,005	202	188	77
SC	2	\$	29.66	1,502,650	\$172,839,181	\$65,386,672	\$55,615,443	\$17,945,942	\$10,488,698	\$6,542,283	\$4,311,621	\$2,931,566	\$2,012,955	72,645	40,474	20,223	5,374
SD	1	\$	38.99	255,527	\$57,086,098	\$40,113,269	\$37,855,705	\$31,639,017	\$28,990,764	\$26,884,290	\$24,484,504	\$22,457,345	\$20,510,449	19,386	15,730	14,992	12,796
TN	2	\$	29.02	2,713,895	\$292,134,133	\$116,627,544	\$100,900,802	\$31,570,021	\$16,838,158	\$9,407,291	\$5,731,731	\$3,677,594	\$2,501,963	136,913	72,989	35,874	6,215
TX	5	\$	28.56	10,449,569	\$1,069,189,426	\$539,796,096	\$493,149,610	\$329,523,919	\$274,643,914	\$235,086,587	\$204,733,061	\$180,832,134	\$161,668,241	427,783	314,919	234,654	116,281
UT	1	\$	25.76	935,397	\$64,808,932	\$21,770,762	\$19,174,094	\$11,454,524	\$9,000,278	\$7,267,462	\$6,021,763	\$5,176,675	\$4,450,879	17,461	12,230	8,636	4,311
VA	4	\$	27.33	4,029,810	\$358,564,233	\$159,859,691	\$137,127,565	\$47,752,015	\$24,983,965	\$13,794,605	\$8,147,595	\$5,175,666	\$3,467,987	212,821	109,161	56,200	9,352
VT	1	\$	33.91	331,470	\$54,202,932	\$30,158,260	\$24,829,014	\$9,968,728	\$5,603,316	\$3,306,260	\$1,988,437	\$1,258,499	\$889,553	30,995	17,253	10,354	1,501
WA	3	\$	27.34	3,044,486	\$272,423,442	\$129,310,538	\$116,933,549	\$80,474,208	\$69,379,847	\$60,651,198	\$53,683,178	\$47,668,939	\$42,349,378	77,439	59,938	47,904	29,465
WI	2	\$	27.76	2,650,099	\$247,631,344	\$118,477,346	\$101,544,687	\$51,322,077	\$34,475,620	\$23,533,167	\$16,356,675	\$11,729,807	\$8,668,967	131,117	85,586	56,709	16,074
WV	1	\$	36.40	776,326	\$150,699,855	\$85,505,600	\$76,923,339	\$35,787,494	\$23,121,742	\$15,058,170	\$9,856,364	\$6,368,256	\$4,147,192	118,096	78,194	50,025	13,790
WY	1	\$	45.92	221,982	\$66,809,613	\$50,115,655	\$47,038,477	\$40,935,272	\$37,969,942	\$35,366,591	\$33,068,000	\$31,123,781	\$29,604,851	19,065	15,895	13,813	7,902

153,677,826 \$11,675,856,247 \$4,986,864,976 \$4,384,965,808 \$2,320,883,098 \$1,748,335,916 \$1,378,764,601 \$1,122,707,567 \$935,675,155 \$797,102,408 4,769,847 3,053,856 2,047,529 815,836

75% OF MonthCost \$8,756,892,185 \$3,740,148,732 \$3,288,724,356 \$1,740,662,324 \$1,311,251,937 \$1,034,073,451 \$842,030,675 \$701,756,366 \$597,826,806

Supp20 Supp30 Supp3151

Interstate Revs

\$68,385,000,000 25% Interstate \$1,086,241,452
100% Over \$50 \$2,836,903,776
100% Over \$60 \$2,407,493,389
100% Over \$70 \$2,130,314,903
100% Over \$80 \$1,938,272,127
100% Over \$90 \$1,797,997,818
100% Over \$100 \$1,694,068,258

Assumptions: BCPM3, FCC "Common Inputs", CBG Targeting

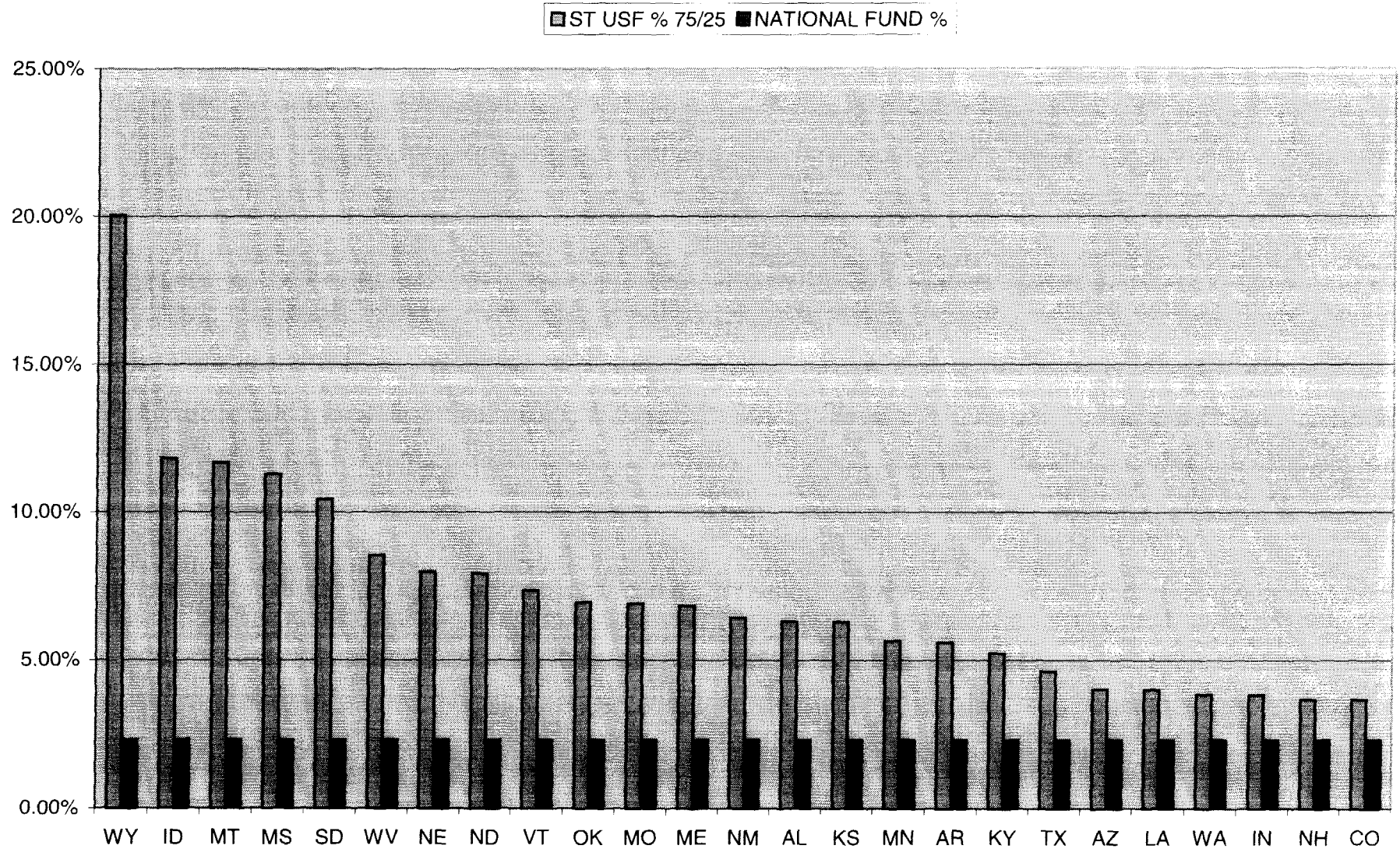
NOTE: FCC "Common Inputs" are used for illustrative purposes only. Neither BCPM nor HAI sponsors support the use of Common Input data for determination of high-cost fund.

COMPANY			100% FEDERAL FUNDING OVER \$50				100% FEDERAL FUNDING OVER \$80 (See NOTE)			
	Total Lines	% TOTAL LINES	FUNDING	% FUNDING	Lines>\$50	%LINES > \$50	FUNDING	% FUNDING	Lines>\$100*	% > \$100*
AMERITECH	19,103,447	12.4%	\$109,243,144	3.9%	257,637	5.4%	\$67,357,732	3.5%	21,438	2.6%
BELL ATLANTIC	37,696,649	24.5%	\$219,929,790	7.8%	516,041	10.8%	\$139,705,390	7.2%	38,537	4.7%
BELL SOUTH	21,448,009	14.0%	\$390,824,241	13.8%	943,468	19.8%	\$238,828,760	12.3%	95,743	11.7%
GTE	16,857,144	11.0%	\$745,382,027	26.3%	1,196,680	25.1%	\$505,732,372	26.1%	221,728	27.2%
SBC	30,582,350	19.9%	\$504,851,804	17.8%	665,544	14.0%	\$360,734,425	18.6%	163,844	20.1%
SPRINT	6,643,764	4.3%	\$216,244,275	7.6%	497,989	10.4%	\$136,828,362	7.1%	51,110	6.3%
U S WEST	14,468,184	9.4%	\$518,398,899	18.3%	494,353	10.4%	\$394,972,793	20.4%	181,831	22.3%
OTHERS	6,878,281	4.5%	\$132,029,597	4.7%	198,136	4.2%	\$94,112,293	4.9%	41,606	5.1%
			\$2,836,903,776	100.0%	4,769,848	100.0%	\$1,938,272,127	100.0%	815,837	
TOTAL	153,677,826				3.1%				0.5%	

* NOTE: The highest aggregation of support is at \$80/month, while available line count breaks are at \$75 and \$100

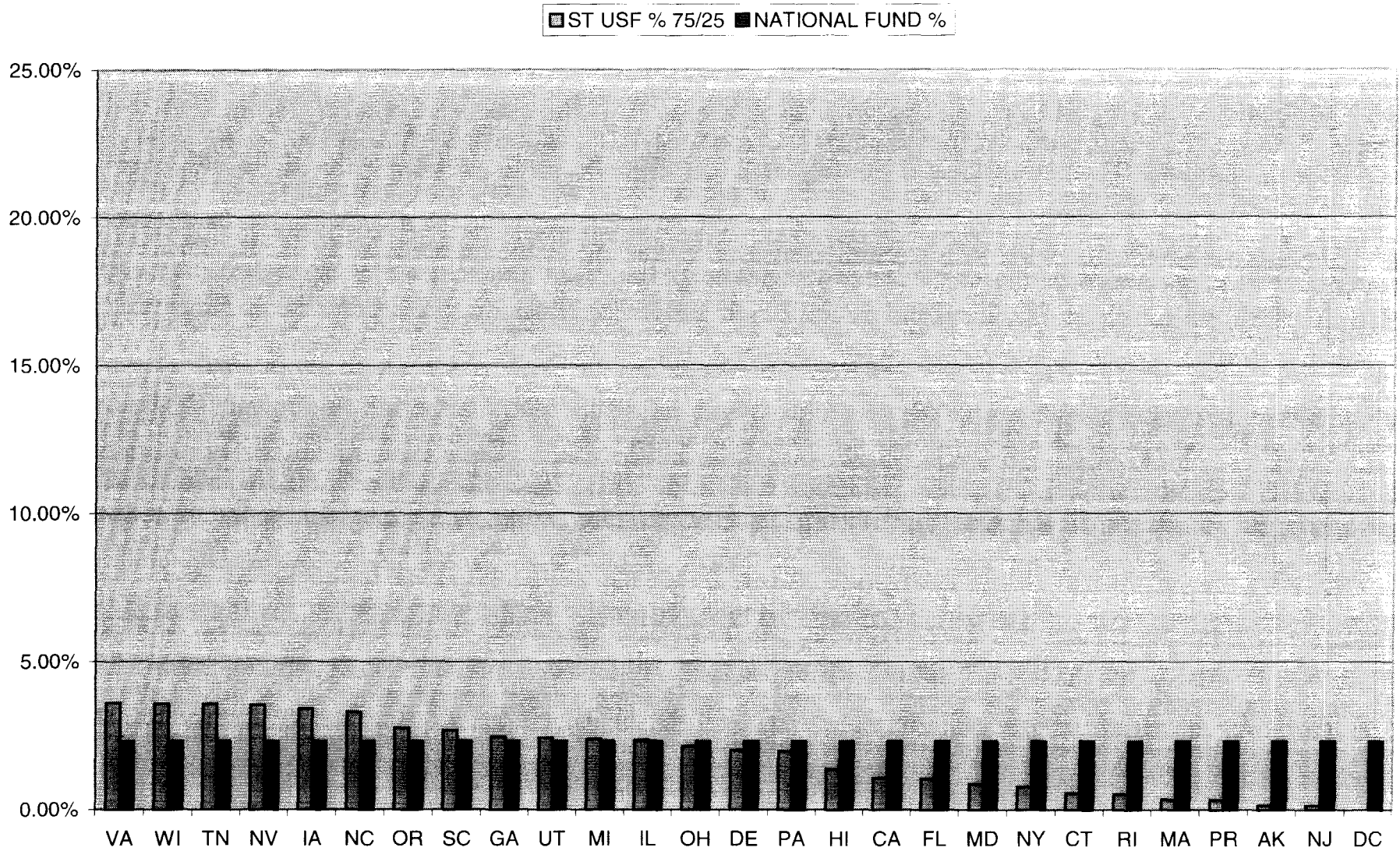
Note: These figures are illustrative only, they use the "common inputs" specified by the FCC staff, and are not supported by either the BCPM or HAI model sponsors. Determination of exact funding requirements will require the final development of the FCC approved proxy cost model.

Non-Rural LECs "Common Inputs" (4.5B Fund)



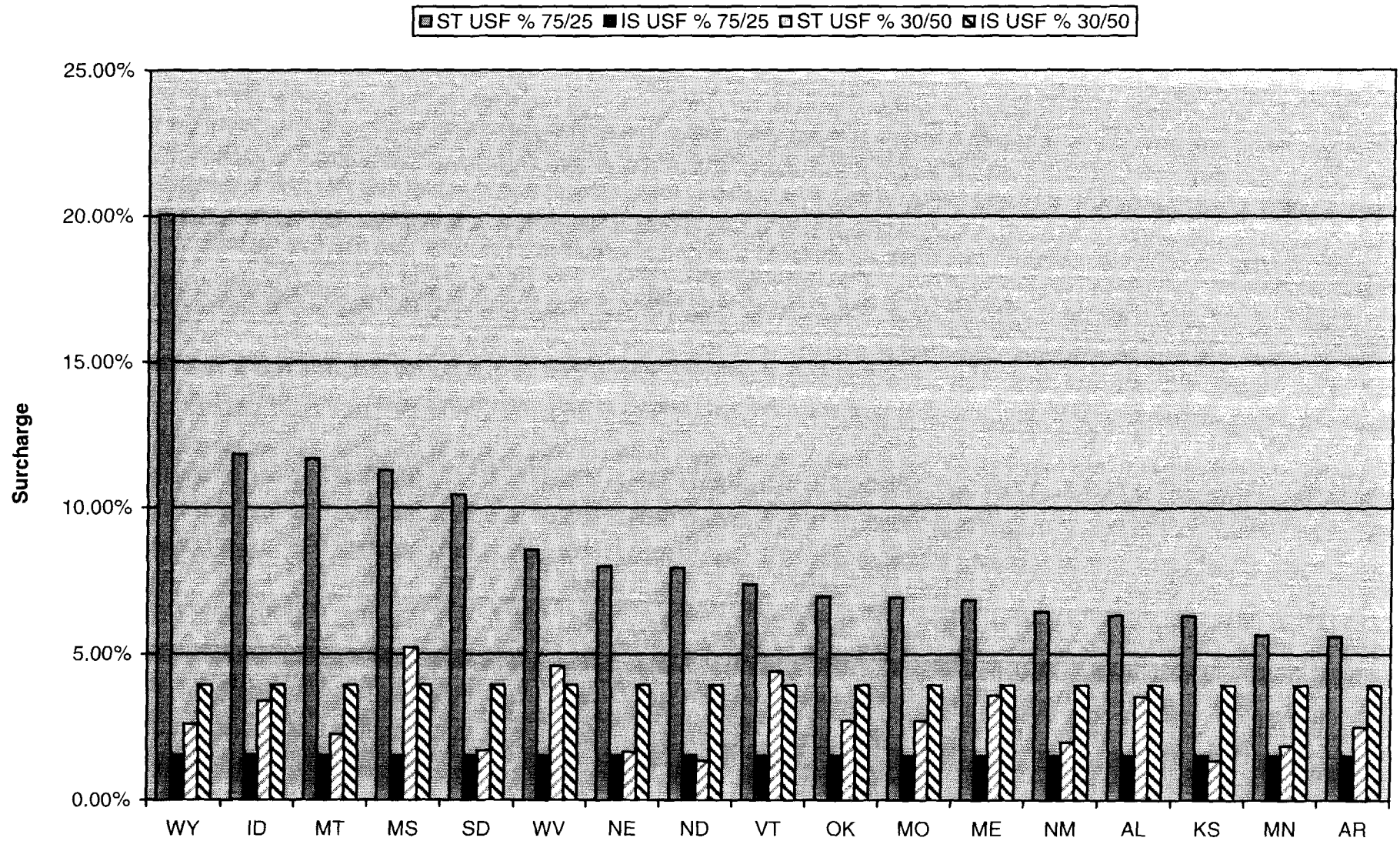
Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model.
The actual fund size will be determined after completion of further proceedings to finalize model inputs.

Non-Rural LECs FCC "Common Inputs (\$4.5B Fund)



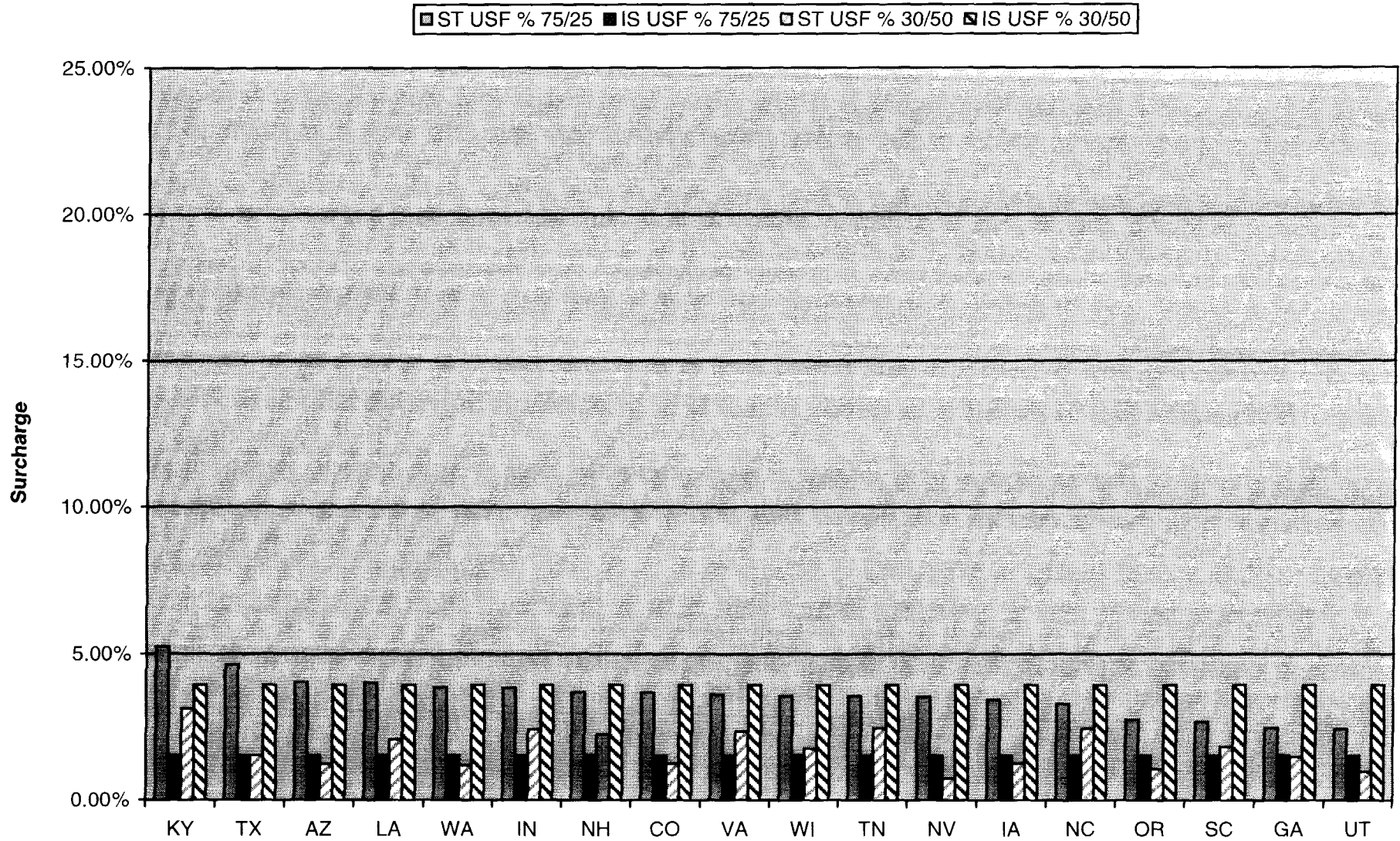
Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model. The actual fund size will be determined after completion of further proceedings to finalize model inputs.

Non-Rural LECs, Common Inputs (1 Of 3)



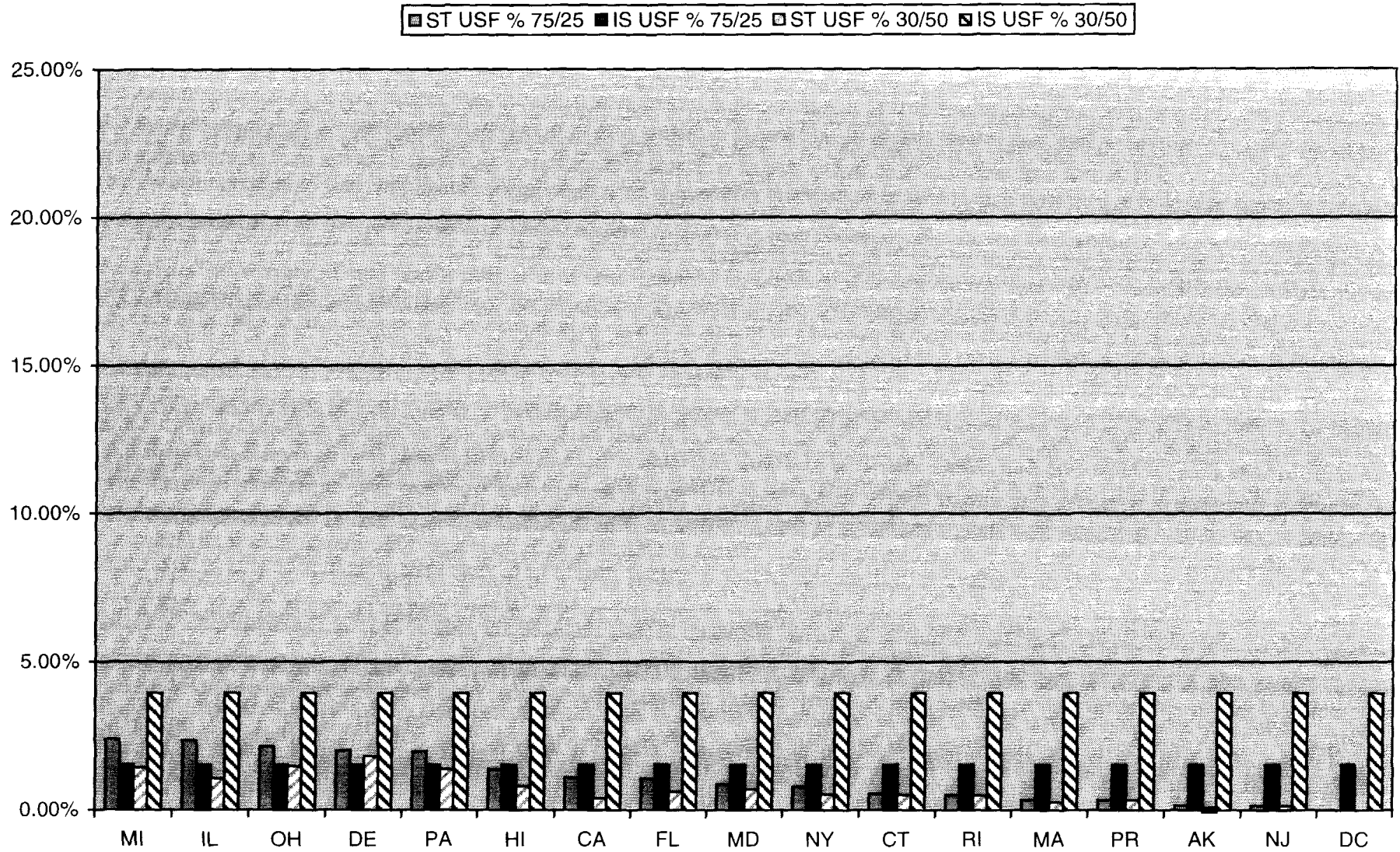
Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model. The actual fund size will be determined after completion of further proceedings to finalize model inputs

Non- Rural LECs, Common Inputs (2 of 3)



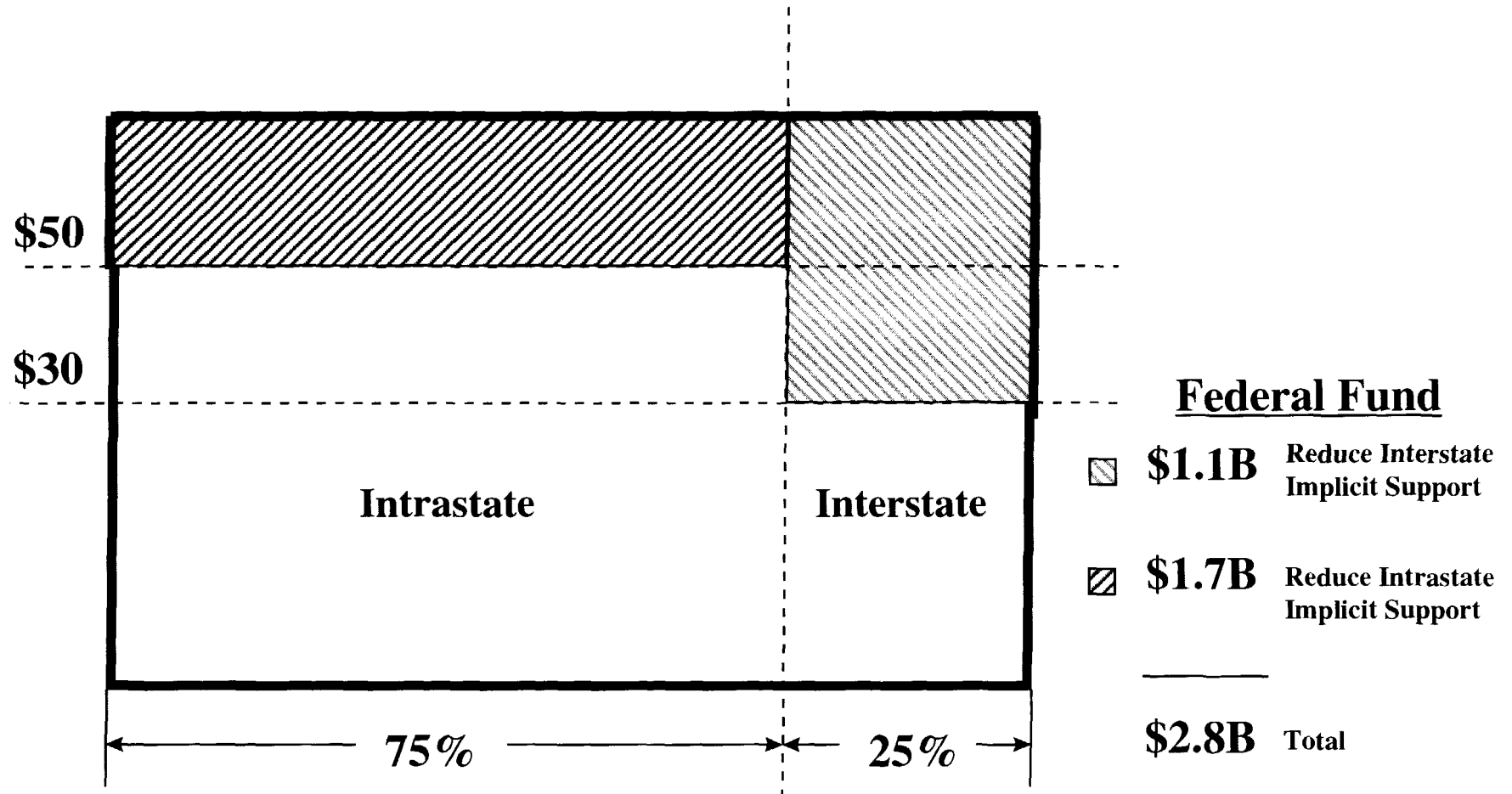
Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model.
The actual fund size will be determined after completion of further proceedings to finalize model inputs

Non-Rural LECs, Common Inputs (3 of 3)



Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model.
The actual fund size will be determined after completion of further proceedings to finalize model inputs

The U S WEST IHCAP Plan



Note: This chart assumes a fund size of \$4.5B derived from using FCC "common inputs" in the BCPM3 model. The actual fund size will be determined after completion of further proceedings to finalize model inputs.

Blueprint for Further Action

- Decide on Key Elements of Proxy Model Platform
- Appoint High-Cost Fund Administrator
- Have Fund Manager Develop Final Model Platform
 - Synthesis of BCPM/HCPM/HAI
- Finalize Model Inputs
- Joint Board Efficiently Resolves Issues Relating to Fund Structure
- Final Fund Sizing
- Implement Explicit Funding